

Message Text

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C O N F I D E N T I A L STATE 275190

FOR ASST SECRETARY ENDERS

FOL REPEAT KUWAIT 4854 SENT ACTION SECSTATE INFO

ABU DHABI ALGIERS DOHA JIDDA MANAMA TEHRAN TRIPOLI

BAGHDAD NOV 19

QTE

C O N F I D E N T I A L KUWAIT 4854

E.O. 11652: GDS

TAGS: PFOR, ENRG, KU, IZ

SUBJECT: IRAQ GOES PUBLIC IN OIL POLICY DISPUTE WITH KUWAIT:

KUWAIT REACTION

REF: BAGHDAD 1190

1. GOK ACTED SWIFTLY TO REJECT CHARGES MADE BY IRAQ THAT KUWAIT HAD INFRINGED OPEC AGREEMENT BY REDUCING PRICE KUWAITI CRUDE TO \$11.30, TEN CENTS BELOW PREVIOUS PRICE WHICH REPRESENTED TEN PERCENT INCREASE OVER PRE-SEPTEMBER OPEC MINISTERIAL MEETING PRICE. ACTING OIL MINISTER NAFISI ISSUED STATEMENT TO PRESS WHICH STRESSED THAT KUWAITI MOVE WAS MADE ONLY AFTER CONSULTATION WITH OTHER REGIONAL OPEC STATES INCLUDING IRAQ. ACTING MINISTER'S STATEMENT ALSO CONFIDENTIAL

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SAID THAT OK HAD NO INTENTION OF UNDERCUTTING OPEC

NEIGHBORS, BUT IT ALSO POINTED OUT THAT SEVERAL OTHER OPEC STATES HAD READJUSTED PRICES RECENTLY.

2. KUWAITI PAPERS REPORTED FULLY NOVEMBER 18 IRAQI CHARGES AS WELL AS GOK DEFENSE OF ITS ACTION. IN ADDITION TO POINTS NOTED ABOVE, GOK STRESSED ITS DEVOTION TO OPEC SOLIDARITY. GOK ALSO INDICATED WILLINGNESS TO BE AS FLEXIBLE AS POSSIBLE AND TO MEET WITHIN OPEC TO DISCUSS MATTER. KUWAITIS PROMISED NOT TO ACT IN MANNER THAT WOULD DIVERT IRAQI CUSTOMERS TO KUWAIT.

3. ABDUL AL-AZIZ AL-KHADR, FOREIGN MINISTER'S OFFICE DIRECTOR, TOLD AMBASSADOR NOVEMBER 19 THAT GOK IRRITATED BY IRAQI CHARGE, BUT NOT OVERLY CONCERNED AT THE MOMENT. SAID THE TWO GOVERNMENTS HAD EXCHANGED "SECRET" COMMUNICATIONS ON SUBJECT OF OIL PRICES WHICH GOI, FOR OWN REASONS, HAD MADE PUBLIC. UNDER CIRCUMSTANCES, GOK HAD NO CHOICE BUT TO REPLY PUBLICLY. HE OPINED IRAQI ACTION WAS ESSENTIALLY A "MANEUVER"--PART OF OVERALL WAR OF NERVES WITH KUWAIT. INTERIOR UNDER SECRETARY, CHARGED WITH INTERNAL SECURITY, TOLD EMBOFF NOVEMBER 18 NO EVIDENCE EXISTS IRAQI MILITARY OR OTHER SECURITY FORCES HAVE UNDERTAKEN UNUSUAL ACTIVITIES IN PAST SEVERAL DAYS.

4. COMMENT: WE INCLINED TO AGREE WITH USINT BAGHDAD ANALYSIS IN REFTEL THAT GOI JUST COULD NOT RESIST TEMPTATION TO KEEP POT BOILING IN NEVER-ENDING DISPUTE WITH KUWAIT. WE DO NOT BELIEVE CHARGES AND COUNTER CHARGES WILL RESULT IN MORE OPEN CONFRONTATION.

5. AS INDICATED IN OTHER RECENT EMBASSY REPORTING, KUWAIT HAS BEEN SINCE OPEC MEETING INVOLVED IN IMPORTANT KOC TAKE-OVER TALKS WITH GULF AND BP AND WITH MAJOR CRUDE PURCHASE AGREEMENT NEGOTIATIONS WITH SHELL, EXXON AND OTHERS WHO SIMPLY REFUSED TO ACCEPT \$11.402 PRICE. AFTER CONSULTING WITH ALL OTHER OPEC GULF GOVERNMENTS, GOK INFORMED COMPANIES IT WOULD REDUCE PRICE TO \$11.30. DESPITE STRONG COMMITMENT TO OPEC SOLIDARITY AND EVER PRESENT DESIRE TO AVOID UNNECESSARILY ANGERING IRAQIS, GOK APPARENTLY AGREED WITH COMPANIES THAT \$11.402 PRICE COULD HAVE SERIOUS CONFIDENTIAL

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CONSEQUENCES WITH RESPECT TO MARKETING KUWAITI CRUDE AND THEREFORE TEN CENT PRICE REDUCTION WAS NECESSARY. DESPITE IRAQI COMPLAINTS, FUNDAMENTAL ECONOMIC SITUATION REMAINS UNCHANGED AND, THEREFORE, IT WILL BE DIFFICULT FOR GOK TO RAISE PRICES AGAIN. IF OTHER OPEC STATES SUPPORT IRAQIS, HOWEVER, GOK WILL FIND ITSELF IN AN UNCOMFORTABLE POSITION. STOLTZFUS

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